



Qualitative Fund Research

Oyster Direct Property Fund

June 2018

About the Manager

Oyster Group is a leading New Zealand commercial property company providing professional property and funds management to retail, commercial and industrial property owners and investors. Oyster Group is 50% owned by Cromwell Property Group, an Australian-based ASX listed (ASX: CMW) Real Estate Investment Trust (REIT), that derives the majority of its revenue from property investment and management, funds management and property development. Oyster Management Limited (the Manager or Oyster) is responsible for the day to day management of Oyster funds. The Manager's profile is available [here](#).

Oyster offers a mix of products, from closed end single property syndicates to diversified, typically open ended, multiple property funds. Oyster has always offered both retail and wholesale property

investments usually for standalone or dual property assets. More recently Oyster has brought its first open-ended diversified property investment offering to the market, via their Direct Property Fund.

FundSource views corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the clients' experiences.

Oyster currently manages a total of 24 proportionate ownership schemes (mix of both retail and wholesale investments) and the [Oyster Direct Property Fund](#).

Oyster has become increasingly active in the New Zealand market. Unlike the traditional portfolio manager and analyst roles, Oyster's investment team consists of transaction, leasing and licensee, development, and property management. Individual bios for the Oyster team can be found [here](#).

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

The Oyster Direct Property Fund (the Fund or DPF) is a diversified direct property fund that invests in to physical properties. The investment in physical assets means investors are exposed to risks typically associated with direct assets, being reduced liquidity, leverage and variations to income. Accordingly, the Fund may be suitable for investors seeking exposure to commercial real-estate which is generally typified by long-term, low volatility income streams with a capital growth component.

From an asset class perspective this Fund is considered a satellite to a well-diversified portfolio. The Fund will generally sit within the alternative sector of a balanced portfolio, due to the low correlation to listed investments.

The Fund has been established to hold a diversified commercial property investment portfolio. The investment objective of the Fund is to

provide investors with a stable monthly income stream combined with the potential for capital growth.

This Fund is expected to have low correlation to listed investments and potentially compliment and smooth the performance delivered by listed investment vehicles. The Fund is subject to market risks and movements (both positive and negative) and is suitable for investors with an investment horizon of more than five years.

The Fund is a Portfolio Investment Entity (PIE) with returns distributed by way of monthly distributions. New investments and redemption requests are processed monthly.

FundSource notes that due to the Fund being a direct property fund it does not appear in the FE Analytics database. Accordingly, FundSource has provided some fund analytics on pages 10 and 11 of this report.

Question	What the Manager says	What FundSource think
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>As at March 2018, Oyster Management Limited (Oyster) has approximately \$1.2 billion of property under management in New Zealand; the Direct Property Fund provides diversified exposure to properties under management of approximately \$499 million.</p> <p>As at 31 March 2018: Direct Property Fund: \$40.04M</p>	<p>The Manager is responsible for a significant portfolio of properties.</p> <p>Oyster has always offered both retail and wholesale property investments typically in single or dual asset structures such as property syndicates. More recently Oyster has brought its first open-ended diversified property investment offering to the market, via their Direct Property Fund. Via the DPF the Manager has become available to a wider retail investor audience. This is achieved by the Manager reducing the minimum investment entry point down to \$10,000.</p> <p>The DPF owns a mix of standalone commercial property and it is the partial owner, or co-investor in a series of commercial properties that are available via other Oyster investment structures such as property syndicates. The PDS allows for the Fund to purchase its own property once it reaches significant scale (to maintain diversification), noting the Funds' SIPO has a target that no single investment is to be more than 20% of the assets of the Fund or \$15 million, whichever is greater.</p> <p>Oyster's history dates back to November 1997 with registration of Prime Retail Management Limited. Oyster Management Ltd was registered in March 2006, with the DPF being first registered as PIE structure in May 2016.</p>
<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>Oyster Management Limited is licensed under the Financial Markets Conduct Act 2013 to manage Other Managed Investment Schemes. The Fund is managed by Oyster Management Limited, the following key personnel are involved in the management of the Fund:</p> <ul style="list-style-type: none"> - Mark Schiele, Chief Executive Officer & Director of Oyster - 20+ years as a senior executive within the property industry. Mark is responsible for overseeing all of Oyster's operations and implementing the group's and the Fund's agreed strategy. - James Molloy, Head of Transactions - 10 years experience in commercial property, currently leads investment analysis, due diligence and negotiations for proposed property transactions and oversees capital raising process for Oyster and the Fund. - Rachel Barr, Chief Financial Officer - Nearly 20 years experience in accounting and finance within the property industry, she leads Oyster's Finance Team which oversees Oysters' and the Funds' financial management and reporting, capital and cash flow management and taxation / compliance. - Ian Hasell, General Counsel - 20+ years experience within the property industry, responsible for the legal and regulatory affairs of Oyster and the Fund, ensuring legal compliance and limiting risk exposure. 	<p>Unlike traditional managed funds, the DPF is not managed under a typical portfolio manager and analyst structure. The Manager's focus is investing in large lumpy assets, rather than a target security price where the noise and information is significantly higher.</p> <p>With this in mind the team is broken down to core functions, transaction, leasing and licensee, development, and property management. These roles are filled by personnel with 10 or more years' experience in the type of role they currently fulfill.</p> <p>FundSource view the use of an investment committee, comprised of Oyster Management and directors, positively. The Oyster board comprises a mix of Cromwell, Oyster and non-executive directors. All directors have diversified strong property backgrounds.</p> <p>Manager tenure and industry experience are considered important factors. Key property manager related roles all have 10+ years industry experience, and Manager tenure of ranging from 5-13 years. FundSource believes the Manager is appropriately resourced overall, and the experience is strong.</p>

	<p>- Steven Harris - General Manager, Property - 10+ years experience in commercial property, he oversees the asset management process and strategy for all Oyster's property assets (office, industrial and retail) and leads the property team.</p> <p>All key personnel have worked together prior to the Funds' inception. An investment committee comprising of Paul Weightman, Mark Winter, Gary Gwynne, Joanna Perry, Mark Schiele, Nigel Powell and Michelle McKellar (all directors of Oyster Management Limited) approve all new investments and review the overall fund strategy.</p>	
<p>What objective is the Manager trying to achieve?</p>	<p>The Fund aims to provide investors with a stable monthly income stream combined with the potential for capital growth through investing in a diversified portfolio of quality commercial property assets in a single investment. The Fund intends to make long term property investments. Property by its nature favours a long-term hold approach to investment.</p> <p>The Fund targets a portfolio weighted towards major urban locations, quality tenants and long leases.</p>	<p>The Fund objective is to generate revenue, which can support regular monthly payments to investors. The Fund's income is derived from the leasing of each underlying property.</p> <p>Property location, quality, tenant profile, lease quality and weighted average lease expiry (WALE) will impact the property valuation and capital expenditure requirements.</p> <p>Diversification is central to the Fund. Diversification is achieved on several levels, including property type, office, retail, or industrial. Leasing profile looks to ensure diversity among tenants, to mitigate risk to any one specific tenant or activity.</p> <p>A regular quarterly DPF report is made available to investors, providing a Fund overview and summary of the Funds' investments. The Manager summarises the Funds' total returns (income returns + capital returns) since inception and 12 months to date, on an annualised basis, via a monthly email to investors too.</p>
<p>What does the Manager invest your money into?</p>	<p>The Fund currently invests in a portfolio of nine commercial properties, as March 2018, and is authorised to invest into industrial, retail and office commercial property or into unlisted schemes whose sole assets are commercial property. While the fund tends to be fully invested it may hold some investments in cash.</p> <ul style="list-style-type: none"> - Typically, the Fund' may invest in existing proportionate ownership schemes (both retail and wholesale investments) managed by Oyster (subject to availability via the secondary market). - The Fund' may also invest in new proportionate ownership schemes, both retail and wholesale investments, provided the investments are consistent with the Funds' SIPO (No single investment exceeds more than 20% of the assets of the Fund or \$15M (whichever is greater)). - The Fund may purchase its own property. 	<p>The Fund's portfolio of properties is currently dominated by office sector exposure, then retail and a very small amount of industrial sector exposure. FundSource notes this may change over time. The leasing profile and outlooks for office and retail will dictate the consistency and sustainability of the rental income stream.</p> <p>A common catch cry in property is location, location, location. The Fund's assets location and building quality will be a key determinant in each properties ability to maintain its contribution to the Fund's overall yield. FundSource notes there are no specific direct property benchmarks.</p> <p>The Manager is unlikely to change the underlying assets in the short term, however, turnover of assets is expected from time to time, on an acquisition and disposal basis.</p> <p>Despite investing in established property vehicles, the ability for the DPF to redeem</p>

		<p>from each underlying fund or trust is reduced as they have invested into direct property. Investors should consider the Fund to be illiquid, and therefore be prepared to invest for the long term. The Fund offers redemptions of units on a monthly basis, this was introduced from June 2017. All redemption requests made by investors to date have been paid in full and on time, at the current unit price.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>The principal risks of investing in the Fund are risks relating to:</p> <ul style="list-style-type: none"> - Liquidity risk as the Fund is investing in assets that cannot be easily sold, albeit the Fund' offers redemptions of units on a monthly basis to provide more liquidity to investors. - Property valuation risk, property values may decrease or increase markedly following independent annual valuations which could change the Fund unit price; - Interest rate changes which could impact Fund distributions, interest rate hedging within some of the proportionate ownership scheme structures can partially mitigate this risk. - Exposure risk, Fund may become too exposed to one property investment albeit the Funds' SIPO outlines that no single investment exceeds more than 20% of the assets of the Fund or \$15M ~ whichever the greater. - Major capital expenditure to the properties could impact Fund distributions; - Damage or destruction risk could impact Fund distributions; and - Tenant default could impact Fund distributions. 	<p>The risk an investor exposes themselves to in this Fund appear to be similar to those in other PIE managed funds. However, there are some important differences, including the significantly reduced liquidity. Investors should ensure they familiarise themselves with the key risks highlighted by the Manager.</p> <p>There is potential for the Fund to experience asset concentration risk. That is, not all underlying investments are available for new investment, which can include via the DPF. The DPF has recently increased its underlying proportionate ownership to >20%, this includes the Funds' holdings in 100 Harris & Henderson Mega Centre. Since January 2018, All interests in the Millennium Proportionate Ownership Scheme that were set aside for the DPF have now been funded. Concentration risk extends to the property locations, currently Auckland accounts for ~80% of the asset location. Therefore, portfolio risks can increase, beyond those of a typical managed fund using listed investments.</p> <p>The positive asset includes lower month to month volatility as the assets in the DPF are typically valued annually, as opposed to daily. Potentially smoothing an investor portfolio performance.</p> <p>All underlying properties have some gearing. This means there is some interest rate risk, and financing risk involved. At present Oyster have lending facilities with several banks, predominantly top tier banks, which helps to mitigate some of this risk. In the past banks have made decisions to exit parts of a market, while this is low, it can occur. The timing of refinancing can impact the Manager and the Fund, as was the case for several Australian direct property fund managers in the global financial crisis (GFC).</p> <p>The Manager is aware of the broad range of risks and is mindful of them when constructing and managing the portfolio. Selecting and blending the properties takes a great deal of skill, knowledge, understanding and insight, developed over many years. FundSource believes the Oyster investment team has appropriate experience, insight and tenure. This type of Fund is not readily replicable by an individual investor.</p>

<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>Oyster's goal is to enhance returns and reduce risk through a thorough due diligence process when selecting investment grade property investments. Oyster will look to enhance returns and add value through pro-active management of the property and building a positive relationship with tenants.</p> <p>Specifically, Oyster takes the view that the Funds' underlying commercial property assets, over the long term, will experience:</p> <ul style="list-style-type: none"> - Rental growth from existing and/or new tenants. - Increased capital value of assets underpinned by increased rental growth and cap rate compression through changes in property cycles. 	<p>The Manager's due diligence process sees each individual property modelled, the current tenant and lease profiles are evaluated so the Manager can accurately determine the capital expenditure required to ensure the properties remain optimised based on the type of tenant and the duration of the weighted average lease expiry (WALE). FundSource notes that Cromwell's Diversified Property Fund, in Australia, is characterised by a long WALE, across top tier tenants. Oyster works hard ensure the WALE, with recent acquisitions that WALE has reduced slightly from >8 years, reducing to 7.8 years, and occupancy rate remain high, currently >95% in conjunction with the DPF, and tenant quality. FundSource believes the current tenant mix is strong, with some leasing changes provide opportunities for the DPF to benefit from some vacancy rates being taken up. Importantly the properties that the DPF invests in to are >95% leased, which in commercial property terms is considered fully leased.</p> <p>The Manager is very aware that building quality, location, capital expenditure requirements, and the tenant and lease profiles will likely impact the valuation process. FundSource note that valuations are an important part of operating the Fund, underpinning investor expectations. Valuation only become real on the completion of a transition to sell or buy an asset. Understanding the property market conditions (the macro backdrop for property) impact investor returns and potential for capital gains, as much as the income stream from rent.</p>
<p>Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?</p>	<p>Direct investment in commercial property requires a diverse skill set, market and industry knowledge and in-depth property-related experience. Oyster Group has a long track record of delivering competitive returns to investors. The Fund's investment objective is to provide investors with a stable monthly income stream combined with the potential for capital growth. Since the Funds' inception, the returns delivered to investors have been a consistent cash distribution and capital growth in the unit price.</p>	<p>FundSource view the direct property market as a specialist area, where the Manager's ability to manage the assets becomes critical to investor outcomes. FundSource believe the Oyster team have appropriate on ground resources and skills to deliver strong investor outcomes, in line with their stated objectives.</p> <p>Since the Funds inception in July 2016 the monthly income has been very stable, whereas the growth component has varied more than expected for investing in direct property. Some performance analytics have been provided on pages 10 & 11 of this report.</p> <p>The Manager's ability to source additional properties in the future, without diminishing the quality of the current assets, is something FundSource believes the Manager is acutely aware of. FundSource highlights the DPF structure is not new. During the 2008 global financial crisis (GFC) several Australian direct property fund structures materially changed their underlying asset quality, tenancy profile and WALE. Having commenced in the mid 2000's with A and B grade buildings, with strong tenants and long WALE's. This resulted in the failure of these Funds. The</p>

		<p>Manager is aware of the history of direct property funds, as is its 50% owner Cromwell. Cromwell is one of a small number of real estate investment trusts (REIT) that weathered the GFC intact.</p> <p>FundSource believes the DPF is managed relatively conservatively and that it intends to improve asset quality, tenant profiles and WALE over time. This should support the Manager's intended smooth monthly income stream, and capital growth.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>Each quarter Oyster review the key metrics for the Fund's property investments and assess if the property investments should be sold. The key metrics to be considered include:</p> <ul style="list-style-type: none"> - Forecast major capital expenditure on the property. - Lease expiry profile and likelihood of lease renewal. - Weighted average lease term (WALT). - The property scheme's Internal Rate of Return. - Property market conditions. - Property valuations. - Forecast net income. - Forecast compliance with banking covenants. <p>If Oyster believes that a property investment should be sold or redeemed it will prepare a report to Oyster's investment committee for its consideration. If the investment committee approves the recommendation Oyster will endeavour to sell or obtain the redemption of the property investments. All new investments are also subject to consideration and approval by Oyster's investment committee.</p>	<p>The Manager typically takes a long-term, greater than 10-year view on the properties it acquires. FundSource notes this is typical for direct property managers. This doesn't prevent properties from being sold in a shorter timeframe, subject to an appropriate offer being made. Notably the time taken to acquire a property can vary from a couple of months to over 12 months. The due diligence conducted is extensive, every property is comprehensively modelled internally by Oyster, and extensive legal due diligence is conducted to ensure there are no skeletons in the closet, so to speak.</p> <p>Despite the need for extensive due diligence, the Manager must remain open to opportunities and not speculate. The Manager has the ability to raise extensive funds from its banking partners should an opportunity arise which requires them to act quickly. The Manager can then sell its balance sheet exposure in to a fund structure, being it a syndicate or the DPF. The process to accommodate this is well understood and in the case of Oyster, transparent.</p> <p>The requirement for all transactions to be approved by the investment committee, rather than any one individual is viewed positively. The size of each transaction varies, the Fund' has investments in underlying commercial properties which range in value from \$11 million to \$229 million to date, there is typically a campaign required to sell an asset, and find an appropriate buyer. FundSource doesn't believe the investment committee process delays or hampers the Managers ability to operate the Fund in an efficient manner, and is a positive risk management tool.</p> <p>The DPF has a redemption facility available for the DPF. However, FundSource believes that potential investors should only consider making an investment in the DPF if they intend to remain invested for the long term, that is, a minimum of five years.</p>
<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Three of Oyster's investment committee and some Oyster staff members, currently hold investments in the Fund; they pay the same fees as the other investors.</p>	<p>FundSource believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees.</p>

		<p>On a positive note, a number of the executive team, and employees have invested in Oyster products, which may include this Fund. Importantly they pay the same fees as investors. FundSource believes this improves investor alignment, and all investors have the same outcomes.</p> <p>FundSource notes that due to the illiquid nature of a direct property fund, it is unreasonable to expect Oyster employees to have significant wealth invested. Diversification across assets classes and the liquidity profile of the portfolio needs to align to an employee or investor risk profiles.</p>
<p>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The Funds' authorised investments are as follows:</p> <ul style="list-style-type: none"> - Asset Classes: Commercial property, interests in unlisted schemes whose sole assets are commercial property, interest rate swap agreements and cash. - Sectors: Industrial, Retail and Office. - Geographical Location: New Zealand major metropolitan and regional centres. <p>Target Asset Allocation is as follows:</p> <ul style="list-style-type: none"> - Commercial Property and interests in unlisted schemes 80%-100% - Interest Rate Swap Agreements 0% - 10% - Cash 0%-20% 	<p>The Funds' offering is relatively unconstrained, having fairly broad range for the Manager to operate within. As can be seen by the tables on page 11 of this report. Auckland as a location and office properties dominate the asset allocation. The Fund intends to be fully invested, with cash usually building up post sale or pre-acquisition of a property.</p> <p>The Fund's underlying proportionate ownership schemes often use derivatives to manage interest rate risks.</p> <p>The Fund owns a mix of standalone commercial property and it is a co-owner in a series of New Zealand commercial properties. The properties in the portfolio total \$499 million, of which the DPF currently owns units to the value of ~\$40.04 million, as at Mar 2018. To some degree investors in the DPF will be investing in to individual properties where the DPF may not be a significant investor. Accordingly, this can leave DPF investor outcomes at the discretion of other investors via a difficult vehicle. For example, the Millennium Centre is co-owned by the Millennium Centre Syndicate investors and the DPF. While the Millennium Centre makes up ~27% of the DPF assets. The Millennium Centre consists of 448 units in its proportional ownership, of which the DPF represents ~9%, as at Mar 2018.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>The fees charged to the Fund are considered to be fair and reflect the unique offering and hands-on management required for direct investment into commercial property asset portfolio. All investments are hand-picked by Oyster's key personnel to ensure their suitability to the Fund and the management team has in excess of 75+ years' professional experience. A summary of the key fees to the Fund is detailed below:</p> <ul style="list-style-type: none"> - Acquisition Fee: New property investments, 2% of the purchase price. - Management Fee: 0.60% of total assets of the Fund, to be a minimum of \$103,500. 	<p>FundSource believes the Manager is transparent from a fee perspective, noting the administration and underlying manager fees are disclosed in the Product Disclosure Statement (PDS) available here.</p> <p>FundSource note the DPF is a unique offering in the New Zealand market. Its closest peers are Australian Unit Trusts (AUT) that are available for New Zealand investors to invest in. Therefore, there is no direct comparison available. Needless to say, most components of the fee structure are in line with direct property AUTs.</p>

	<p>A management fee scale will apply from 1 July 2018</p> <ul style="list-style-type: none"> - Termination Fee: 1.75% of gross value of assets if the Fund is wound up. - Performance Fee: 20% of excess performance of investor returns (total of distributions and movement in adjusted net asset value per unit) over the benchmark return (10 year Government bond rate plus 6%). - Property scheme fees are also payable and are determined by each scheme and the total Funds' invested into each scheme. <p>All fees are stated as exclusive of GST.</p>	<p>The performance fee hurdle rate is not market linked, however there are no specific New Zealand direct property indices for the Manager to point to. The performance rate can vary due to the use of the 10-year Government bond rate. FundSource highlights the 10 year Government bond rate has ranged from ~2.1 to ~4.8% over the past five years, which implies the performance hurdle for the Fund's performance fee, which has varied from ~8% to ~10.8%, as at the date of this report. This is in line with some Australian direct property fund managers.</p>
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>Oyster has implemented an extensive governance and compliance system which covers the investment making process, management of fund assets and the ethical behaviour and conduct of all staff members. At the core of the governance systems is the goal to always act in the best interests of the investors. Regulatory compliance is a key focus of the business and a compliance assurance plan covering all aspects of the business has been put in place. Oyster Management Limited is licensed under the Financial Markets Conduct Act 2013 as a manager of Other Managed Investment Schemes; which are invested in Property Syndicates/Real Property Proportionate Ownership Schemes, and Managed Investment Schemes - Managed Funds; where the Managed Funds are invested solely in real property (listed and unlisted). The licencing process requires Oyster to have a high level of governance systems and processes in place. These systems are subject to ongoing reviews by the Financial Markets Authority.</p> <p>A strength of Oyster's team is that the fund and property management functions are all dealt with internally. This allows for full visibility of any issues that may affect the performance of the property assets. Primary responsibility for governance sits with the Board and it is assisted by the Investment Committee. The Investment Committee approves all new investments undertaken by the Fund and any divestment decisions. The directors are appointees of the two shareholders, Cromwell Property Group (ASX listed) and a company representing the founding shareholders. Oyster's Board and Investment Committee benefit from the wealth of property experience held by these directors and the regulatory and governance experience of Cromwell Corporation.</p> <p>The Supervisor and Custodian functions are outsourced to a reputable independent licenced supervisor.</p>	<p>Being 50% owned by the ASX listed Cromwell Property Group (CMW), sees the compliance regime elevated to maintain the same standards as CMW.</p> <p>FundSource believes that Oyster is the first New Zealand direct property fund manager to comply with the Financial Markets Conduct Act 2013.</p> <p>FundSource notes that the Oyster Board and investment committee consists of several New Zealand based non-executive directors. This is viewed favourably, non-executive directors and investment committee members can assist in preventing group thinking from dominating decision making. FundSource believes there may some benefit to including a non-board member on the investment committee, to add some diversity of views in the overall corporate decision making process.</p> <p>Notably the Oyster Board and investment committee have significant property experience. While this is considered extremely important, given the nature of Oyster and Cromwell operations, FundSource is pleased that Oyster has announced an independent chair, on the basis FundSource believed that the addition of a non-property related skill set would assist in diversifying the investment committee and Board output. Joanna Perry's appointment as independent chair provides significant expertise in risk and audit (a former partner at KPMG) and property too (previously an independent director of Kiwi Property Group). As funds management, via the DPF, is newer for Oyster, the addition of a funds management specialist director or investment committee member could be beneficial. In saying that FundSource does not view the current Oyster structure negatively.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>The remuneration of the senior executives of the manager all have a portion as a short-term incentive (STI). The payment of</p>	<p>To preserve capital and generate a long-term positive return for investors, the</p>

	<p>the STI is linked to performance of individual targets and the company's overall performance.</p> <p>Four out of the six members of the Investment Committee are significant shareholders of Oyster (owning in total 39% of the company). This includes Mark Schiele, the Chief Executive who owns 11% of the company.</p> <p>The performance fee for the scheme aligns the manager's remuneration with the performance of the fund.</p>	<p>Manager must remain operational. Being 50% owned by ASX listed Cromwell Property Group (CMW) significantly strengthens the Oyster proposition in the New Zealand market place. Cromwell have provided similar product structures as Oyster since being founded in 1998.</p> <p>The remuneration structures are as expected for a company that is co-owned by an ASX300 listed entity. This being predominantly base salary, with a variable component. The Manager, through its ownership, ultimately works for the benefit of shareholders. Despite this, FundSource believe that the investment team and investment committee are focused on delivering positive investor experiences. The equity ownership of Oyster CEO, Mark Schiele, is viewed as being a strong positive, this is complimented with his tenure in the CEO role.</p>
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FundSource notes that additional performance details for this Fund can be requested from the Manager via their [website](#). Data as at 30 September 2017.

Returns	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Month															
Income	0.50%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%
Capital	0.56%	-0.61%	0.02%	0.61%	0.71%	0.81%	-0.03%	-0.38%	3.85%	-0.19%	-0.25%	-0.23%	-0.08%	-0.74%	0.00%
Total	1.06%	-0.03%	0.60%	1.19%	1.30%	1.39%	0.56%	0.20%	4.43%	0.39%	0.33%	0.35%	0.50%	-0.16%	0.59%
12-Monthly															
Income	0.50%	1.08%	1.67%	2.25%	2.83%	3.42%	4.00%	4.58%	5.17%	5.75%	6.33%	6.92%	7.00%	7.00%	7.00%
Capital	0.56%	-0.05%	-0.04%	0.57%	1.29%	2.10%	2.07%	1.69%	5.54%	5.35%	5.10%	4.86%	4.22%	4.09%	4.08%
Total	1.06%	1.03%	1.63%	2.82%	4.12%	5.51%	6.07%	6.27%	10.70%	11.09%	11.43%	11.78%	11.22%	11.09%	11.08%
Since Inception															
Income	0.50%	1.08%	1.67%	2.25%	2.83%	3.42%	4.00%	4.58%	5.17%	5.75%	6.33%	6.92%	7.50%	8.08%	8.67%
Capital	0.56%	-0.05%	-0.04%	0.57%	1.29%	2.10%	2.07%	1.69%	5.54%	5.35%	5.10%	4.86%	4.78%	4.04%	4.04%
Total	1.06%	1.03%	1.63%	2.82%	4.12%	5.51%	6.07%	6.27%	10.70%	11.09%	11.43%	11.78%	12.28%	12.12%	12.71%

Portfolio Holdings by Location															
Auckland	71.68%	71.59%	71.61%	70.21%	73.34%	73.47%	73.51%	76.11%	77.65%	77.68%	78.74%	79.14%	79.83%	80.00%	80.69%
Wellington	2.82%	2.83%	2.83%	3.36%	3.02%	3.00%	3.00%	2.70%	2.59%	2.59%	2.44%	2.40%	2.32%	2.30%	2.20%
Hamilton	14.61%	14.64%	14.63%	14.31%	12.71%	12.69%	12.67%	11.42%	10.93%	10.90%	10.37%	10.18%	9.83%	9.74%	9.42%
Regional Centres	10.89%	10.94%	10.93%	12.11%	10.93%	10.84%	10.82%	9.77%	8.83%	8.83%	8.45%	8.27%	8.01%	7.96%	7.69%
Total	100%														

Portfolio Holdings by Sector															
Industrial	2.67%	2.68%	2.68%	2.62%	2.32%	2.32%	2.32%	2.09%	2.74%	2.74%	2.62%	2.57%	2.49%	2.47%	2.39%
Office	45.05%	44.98%	44.99%	44.74%	46.40%	46.51%	46.53%	51.83%	51.12%	51.16%	53.39%	54.28%	55.93%	56.18%	57.54%
Retail	52.28%	52.34%	52.32%	52.64%	51.28%	51.17%	51.15%	46.08%	46.14%	46.10%	43.99%	43.15%	41.58%	41.35%	40.07%
Total	100%														

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Returns	31 October 2017	30 November 2017	31 December 2017	31 January 2018	28 February 2018	31 March 2018
Month						
Income	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%
Capital	(0.11)%	0.34%	(0.53)%	(0.07)%	(0.10)%	9.44%
Total	0.48%	0.92%	0.05%	0.52%	0.49%	10.02%
12-Monthly						
Income	6.96%	6.91%	6.86%	6.86%	6.88%	6.63%
Capital	3.34%	2.95%	1.61%	1.57%	1.86%	7.09%
Total	10.30%	9.86%	8.47%	8.43%	8.74%	13.72%
Since Inception						
Income	9.25%	9.83%	10.42%	11.00%	11.58%	12.17%
Capital	3.94%	4.27%	3.74%	3.67%	3.58%	13.01%
Total	13.19%	14.10%	14.16%	14.67%	15.16%	25.18%

Portfolio Holdings by Location						
Auckland	82.76%	83.54%	84.72%	84.88%	86.77%	86.40%
Wellington	1.95%	1.84%	1.69%	1.66%	1.44%	1.35%
Hamilton	8.41%	8.04%	7.48%	7.40%	6.47%	6.34%
Regional Centres	6.88%	6.58%	6.12%	6.05%	5.31%	5.91%
Total	100%	100%	100%	100%	100%	100%

Portfolio Holdings by Sector						
Industrial	2.14%	2.05%	1.91%	1.89%	13.61%	15.55%
Office	56.09%	57.06%	60.17%	60.57%	53.11%	50.99%
Retail	41.77%	40.89%	37.92%	37.54%	33.28%	33.46%
Total	100%	100%	100%	100%	100%	100%

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Conclusion and Rating

Overall, FundSource believes the Manager is filling a gap in the New Zealand market place, from an asset allocation perspective, and enabling retail investors to access a diversified pool of New Zealand domiciled physical property assets. Investors should have a longer-term view and time horizon, due to the reduced liquidity of this Fund. FundSource highlights the Manager offers monthly liquidity, subject to the Manager's guidelines. FundSource notes liquidity provisioning is typical for direct property funds in Australasia.

The team structure is different to traditional funds management, roles such as valuers, leasing managers, and property managers are not common in typical equity, fixed interest, and listed property funds management, other than where physical investments are core to the portfolio. This is due to investing in physical assets, dealing directly with tenants, managing maintenance and refurbishment, and fit out programs. FundSource highlights the team has strong industry experience and manager tenure, relevant for asset class. The alignment to investors through shareholding and/ or investment in the Fund is positive.

The Fund performance, on page 11, shows how on a month by month basis the results can vary, however over time, 12 monthly or since inception the Funds' performance is relatively consistent and stable. While historical performance is not a reliable predictor of future performance, it can provide

insights as to how the Manager reacts to market change.

The Fund does not wholly own a direct property asset at present. Rather the Fund is co-investing in a series of properties owned by the Oyster Group, directly or via other investment vehicles.

FundSource notes this provides investors with a diversified portfolio of properties, rather than a single asset. FundSource expect the asset mix to vary from retail, industrial, and commercial sectors over time, as well as the physical underlying properties. FundSource will continue to review asset mix over time, to ensure there the current quality and strength of the Fund maintains its current property, tenants, WALE, and team quality.

The Funds' fees are in line Australian direct property funds. This includes the calculation methodology of performance fees. The Fund is unique in a New Zealand context, therefore direct comparison to a New Zealand peer is not possible.

FundSource recommends that investors carefully consider that the Manager's approach to investing in direct property, and the liquidity profile of the Fund meets their investment needs and objectives. A direct property fund is typically allocated to the Property or Alternatives asset classes in a diversified portfolio.

FundSource Rating: **AA**

Fund ratings are current as at the date of publication of this report. FundSource reserve the right to review and update fund ratings from time to time

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	4.25 / 5
Investment Philosophy & Process	20%	4.80 / 5
People	25%	4.33 / 5
Portfolio Construction & Implementation	15%	3.17 / 5
Risk Management	15%	4.40 / 5
Investment Fees	10%	3.29 / 5

Overall Average Score: **4.14 / 5**

FundSource Rating Guide

The qualitative rating of a fund is a function of the FundSource Research Factor Weighting process, which is built around the six core qualitative research process categories. The weighted scores result in an overall score, out of five, which is then matched to the following rating:



AAA: Highly Recommended

Funds that have superior average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, significantly experienced and stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management company will also have established effective controls to maintain that philosophy.

AA: Recommended

Funds that have strong average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced and stable personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management philosophy must be coherent and consistent with existing portfolios and processes.

A: Investment Grade

Funds that have good average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced personnel, a sound track record a defined investment philosophy and process, and a portfolio consistent with that philosophy and process.

FW: Fund Watch

There has been a material change with either the manager, this may include, but is not limited to, departures, new hires, process changes, changes to the investment philosophy. This is considered to be an interim measure, to enable further investigation, re-evaluation and an appropriate course of action to be determined.

S: Sell

This category covers previously recommended funds that are no longer recommended because of some material change. Removal from recommended status might be for a variety of reasons such as a fundamental change in the fund management company or in the manager's investment strategy, or because a fund did not meet its original expectations. The implications for ongoing service are that the fund should be reviewed on an individual client basis to ensure it still matches their original investment objective.

NR: Not Rated – Screened/ Not Rated

Funds in the Not Rated – Screened category have provided information and/or FundSource has conducted an initial analysis of the fund, but has chosen not to provide a recommendation at this stage. FOR Not Rated funds the manager may have provided information, but no review meeting has been conducted

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